



CHINA
DEVELOPMENT
FINANCIAL

Accordia Golf Trust

(AGT SP/ACCO.SI)

Site visit; waiting for acquisitions

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- We visited five of AGT's golf courses located to the south of Tokyo and around the Shizuoka Prefecture, where Mt. Fuji is located.
- AGT's parent company is now the largest golf course operator in Japan; we think it is only a matter of time for AGT to re-rate higher as the industry consolidates.
- We maintain our BUY recommendation on its attractive dividend and DPU-accretive acquisitions over the next 12-months.

Financials & Key Operating Statistics					
YE Mar JPY bn	2017	2018	2019F	2020F	2021F
Revenue	51.9	51.5	50.7	50.5	50.3
PATMI	4.0	4.1	5.3	5.3	5.3
Core PATMI	5.5	5.8	5.3	5.3	5.3
Core EPS (JPY)	0.5	0.5	0.5	0.5	0.5
Core EPS grth (%)	-15.6	5.7	-8.6	-0.5	-0.5
DPS (SG Cents)	6.0	3.9	4.0	5.3	5.2
Div Yield (%)	10.1	6.4	6.6	8.8	8.7
Net Margin (%)	7.7	8.0	10.5	10.5	10.5
Loan-to-Value (%)	31.3	29.4	29.3	29.5	29.6
ROE (%)	5.0	5.1	6.5	6.5	6.4

Source: Company Data, KGI Research

Site visit. We visited five of AGT's golf courses located to the south of Tokyo. The largest course in terms of revenue and appraisal value was the Daiatsugi Country Club located in Kanagawa Prefecture, which is around an hour's drive from Tokyo. The three other golf courses were located in Shizuoka Prefecture, most famous for Mt Fuji.

Figure 1: The four golf courses visited

Golf Course	Appraisal Value (JPY million)	Location	Revenue FY18 (JPY million)	Utilisation FY18 (%)
Mishima Country Club	3,040	Mishima-Shi, Shizuoka	686	86.2
Ashitaka Six Hundred Club	2,120	Numazu-Shi, Shizuoka	637	84.9
Jurigi Country Club	1,730	Fuji-Shi, Shizuoka	477	69.5
Daiatsugi Country Club Hon	7,980	Atsugi-Shi, Kanagawa	1,304	86.3
Daiatsugi Country Club Sakura	6,650	Atsugi-Shi, Kanagawa	1,101	110.0

Source: KGI Research

Tokyo Olympics; growth plans. Although the Tokyo Olympics would benefit Japan's tourism sector, management does not see a direct benefit to its golf courses. Instead, a key driver would be acquisition-fuelled growth given AGT's low 29% loan-to-value (LTV) ratio. It is on the lookout to acquire either new golf courses or existing courses from the pipeline of its sponsor. As for the recent transaction with Orix Corp (Orix Co), they will still need around 1 to 2 years to improve operations before ready to be acquired by AGT.

As a recap, Orix Co had transferred its golf business to MBK partners, the parent company of AGT, in Nov-2018. Given the development, MBK is now the largest golf course operator in Japan with a total of 173 golf courses. Hence, we believe that all the pieces are falling into place for AGT to embark on its DPU-accretive acquisitions to enhance shareholder value. AGT has the debt headroom to conservatively acquire ten golf courses at an average price of JPY 2bn each. Doing so would only increase its LTV ratio by 5% points to 35% but raise DPU by 10%.

BUY - Maintain		Performance (Absolute)	
Price as of 3 Apr 19 (SGD)	0.59	1 Month (%)	-4.8
12M TP (\$)	0.72	3 Month (%)	18.8
Previous TP (\$)	0.61	12 Month (%)	-0.5
Upside, incl div (%)	28.8		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	648		
Issued Shares (mn)	1,099		
Vol - 3M Daily avg (mn)	1.0		
Val - 3M Daily avg (\$mn)	0.6		
Free Float (%)	71.1%		
Major Shareholders		Previous Recommendations	
MBK Partners	28.9%	15-Feb-19	BUY \$0.61
Hibiki Path Advisors	6.2%	11-Jan-19	HOLD \$0.61
Daiwa Securities	6.0%	15-Nov-18	HOLD \$0.61

3Q19 recap. Operating income rose 4.9% YoY to JPY 14,626mn while total distributable income rose an even higher 9.1% YoY to JPY 1,720mn. The stronger bottom line was due to lower interest expense and income tax as a result of the new 5-year refinancing. The number of players increased by 5.6% YoY in the quarter due to good weather. Another positive trend is that revenue per player increased to JPY 8,507 for 9M19 from JPY 8,442 in the prior year period.

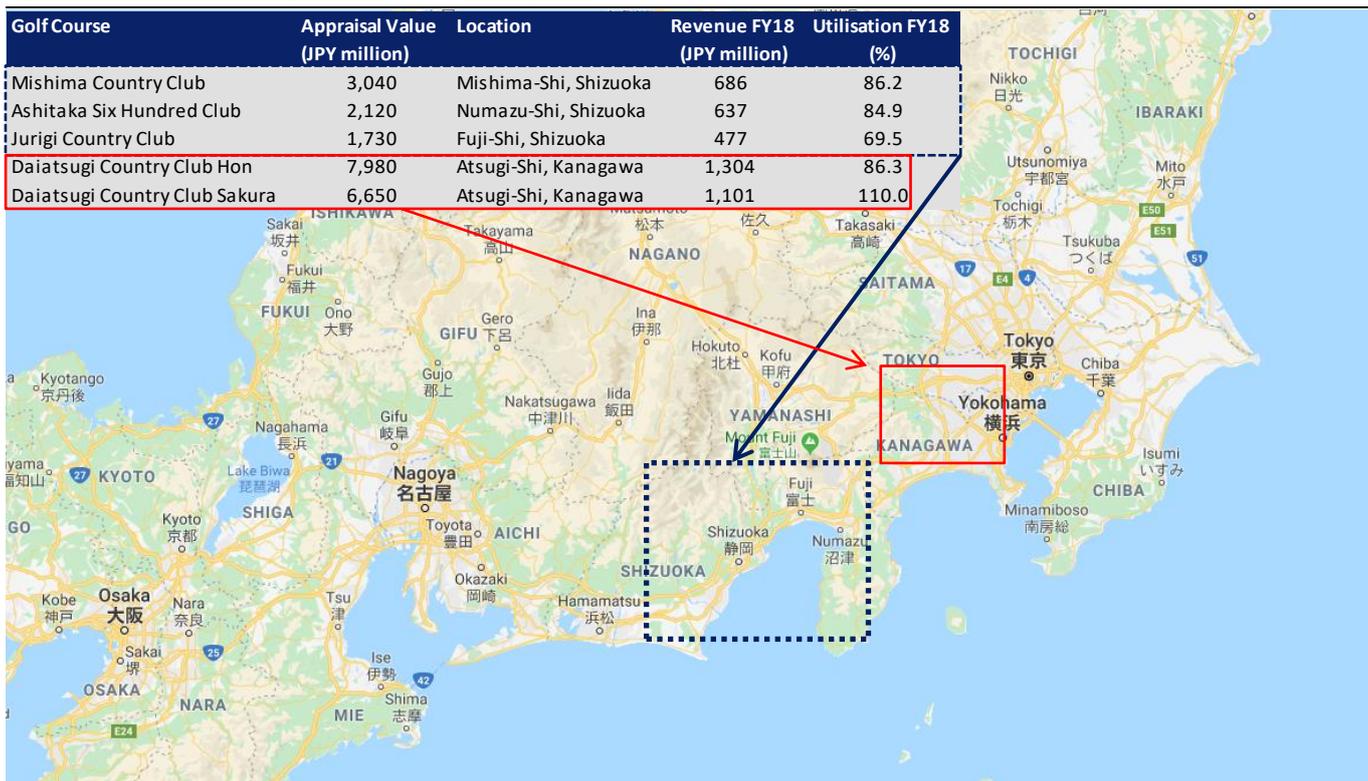
Valuation & Action: We maintain our BUY recommendation. We believe AGT's current unit price offers an attractive opportunity for investors to collect a 7-9% dividend yield while waiting for DPU-accretive acquisitions or corporate action by its sponsor. We believe that FY20F will be a pivotal year for AGT as Japan's golf industry consolidates, therefore leading to increased market share for the largest players, improved economies of scale and possibly better valuations.

Valuations are still cheap; short-term div upside. AGT's unit price dropped to an all-time low of 48 SG cents after a year of extremely bad weather and selling pressure from a large shareholder. Although AGT's unit price has recovered 20% from the lows, AGT's current 0.65x P/B is still below its long-term historical average. In the short-term, there is potential upside to our 2.35 SG cents dividend forecast for 2H19 given that it was able to partially hedge when JPY appreciated in Dec 2018-Jan 2019. AGT paid out 1.64 cents div in 1H19.

Risks: Forex risk to DPU as earnings are mostly in JPY while distributions are in SGD. Macroeconomic environment and adverse weather conditions have the most significant impact on visitor numbers to golf courses.

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Figure 2: Location of the AGT's golf courses we visited in April

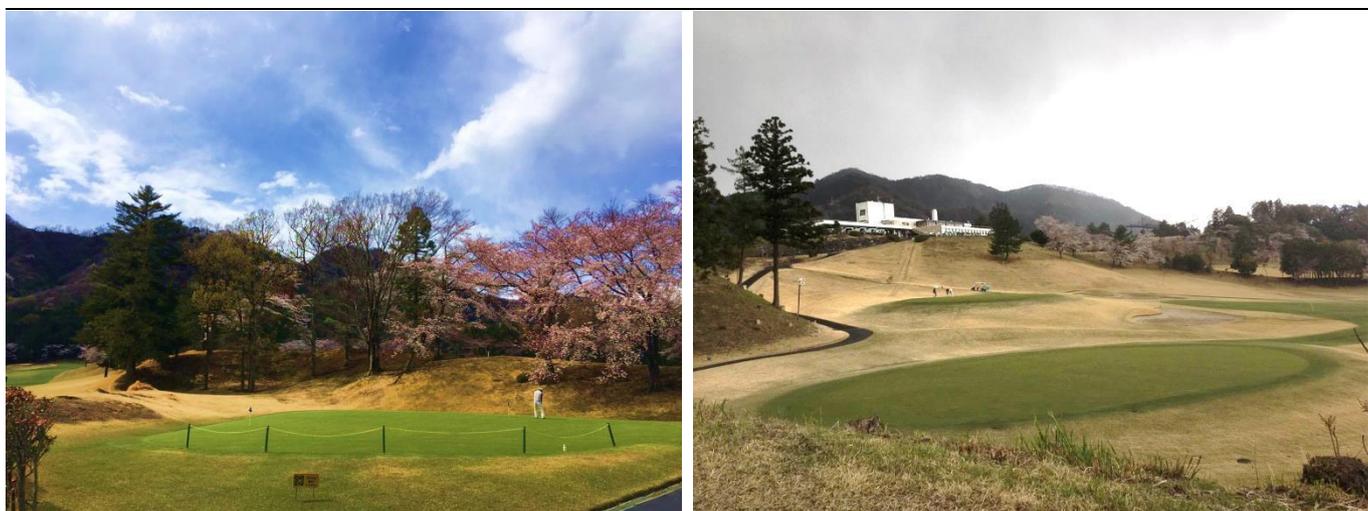


Source: Google Maps, KGI Research

Daiatsugi Country Club Hon Course (DCCH) and Daiatsugi Country Club Sakura Course (DCCS) are AGT's first and third most valuable golf course in terms of appraisal value and revenue contribution. As at 31 Dec 2017, DCCH had an appraisal value of JPY 7,980mn while DCCS had an appraisal value of JPY 6,650mn. DCCH and DCCS are an hours' drive from Tokyo and located in Kanagawa Prefecture. DCCS is among the newer golf courses in AGT's portfolio and features 18 holes, which was added to DCCH that features 27 holes and built in the 1970s. Utilisation rate at DCCH is at 95% (86.3% in FY18) and 100% for DCCS (110% in FY18), which are higher than the group average of 77.5% (FY18) due to their proximity to major cities. DCCS offers night plays, hence the higher utilisation rates compared to DCCH.

Green fees at Daiatsugi Country Club are affordable compared to Singapore – even though it is AGT's top golf course - as the group targets the middle income players. Green fees vary across golf courses but a positive trend to note is that group revenue per player has increased since FY17.

Figure 3: Daiatsugi Country Club Hon and Sakura Courses



Source: KGI Research

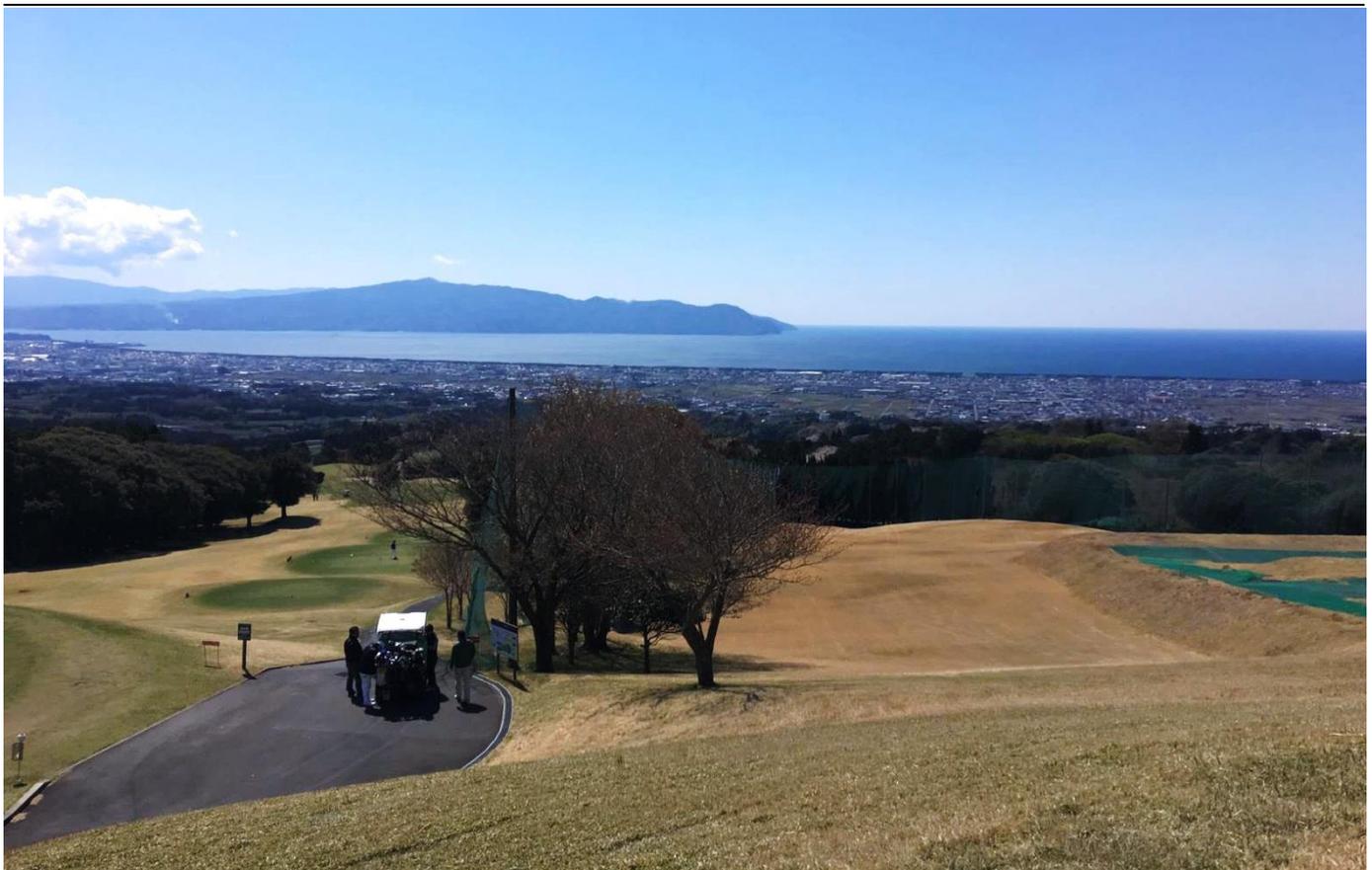
Mishima, Jurigi and Ashitaka Six Hundred clubs. The three other golf courses we visited were located in Shizuoka Prefecture and mainly overlooked the Pacific coast, as can be seen from the photos taken from Ashitaka Six Hundred Club. Mt Fuji is located in the prefecture and can be seen while playing golf at Mishima golf course.

Figure 4: Ashitaka Six Hundred Club - view from the clubhouse



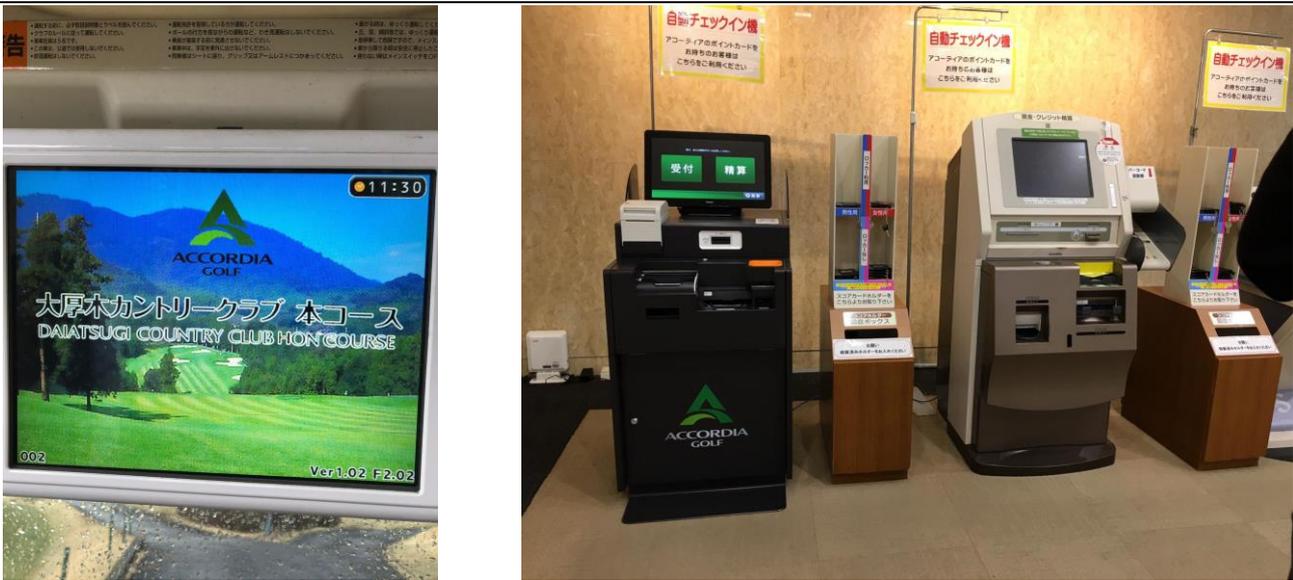
Source: KGI Research

Figure 5: Ashitaka Six Hundred Club - view of the golf course overlooking the Pacific Coast



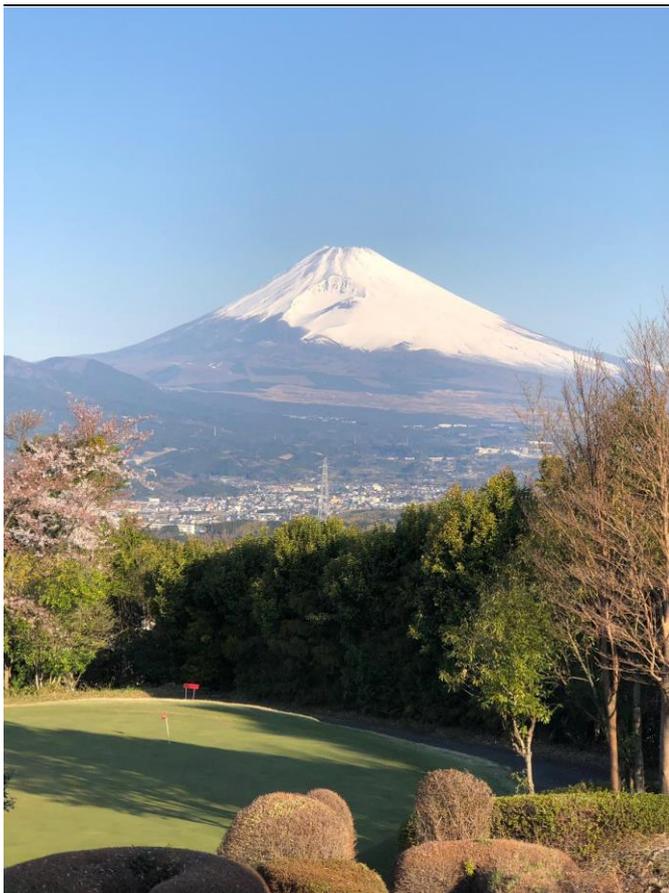
Source: KGI Research

Figure 6: AGT leverages on technology to improve efficiencies at its golf courses. AGT has installed GPS systems (left picture) on most of its golf carts and is well-received by golfers. Golf in Japan is mainly self-play without the need for a caddy. Another effort is moving forward with self-check ins at all it golf courses (right picture).



Source: Company, KGI Research

Figure 7: View of Mt Fuji from AGT's Mishima Country Club



Source: KGI Research

Figure 8: Mishima Country Club is located to the south east of Mt Fuji



Source: Google Maps, KGI Research

AGT's Mishima Country Club (MCC) is located in Shizuoka Prefecture, which is between Tokyo and Osaka. It is an 18-hole course built in 1988 and attracts around 60,000 visitors annually. MCC achieved a 100% utilisation rate during our site visit in April 2019. On an annual basis, it achieved an 86% utilisation rate in the more recent financial year.

Accordia Group + Orix Co = Largest golf operator in Japan

We understand from our meetings with local management in Japan that smaller and independently-run golf courses are closing down. Given this prevailing trend, the largest golf operators such as Accordia Group (Accordia Golf + AGT) have been gradually increasing market share in Japan over the past few years. Accordia Group had a market of 5.83% in 1H18, increasing to 5.99% in the latest quarterly update.

Thus, it was an interesting development for us that MBK Partners, the parent company of AGT, acquired the golf business of Orix Co in November 2018. Orix Co is the third largest golf operator in Japan, with 39 golf courses under its management. The combined entity would be the largest golf operator in Japan with a total of 173 golf courses and a 7.7% market share in the country.

Figure 9: Top golf course operators in Japan

No	Company Name	No of golf courses	Market share
1	PGM Group	137	6.12%
2	Accordia Group (Accordia Golf + AGT)	134	5.99%
3	Orix Group	39	1.74%
4	Seibu Group	29	1.30%
5	Ichikawa Golf Kogyo Group	28	1.25%
6	Tokyu Group	26	1.16%
7	Cherry Golf Group	20	0.89%
8	Unimat Group	18	0.80%
9	Taiheiyo Club	17	0.76%
10	Chateraise	16	0.71%
Total		464	20.7%

Source: Company presentation, Golf Management July 2018, Golf Market Activity Committee

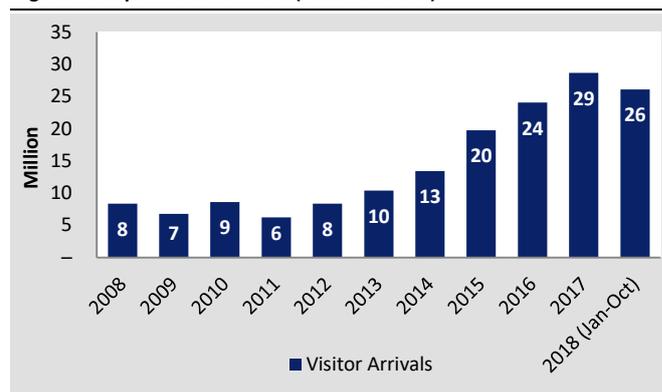
From Orix’s point of view. In Orix Co’s announcement dated 14 November 2018, the company stated that it was transferring its golf business under its wholly owned subsidiary Orix Golf Management Corporation (OGM) to MBK Partners. Subsequently, Orix Co will acquire around 5% equity interest in the holding company for the golf courses under MBK Partners. As per the announcement:

In light of recent changes in the industry, Orix is implementing this business transfer in order for OGM to secure a stable business base to further enhance its customer service going forward. As the collaboration would make the body the largest golf course operator in Japan, Orix decided that the best action to take is to encourage OGM and Accordia Golf to utilize their respective strengths and exhibit business synergy as subsidiaries of MBK Partners in order to maximize this scale merit and achieve growth together.

Economic stimulus from two of the world’s largest sporting events

Japan will be hosting two of the world’s largest sporting events: the Rugby World Cup (RWC) in 2019 and the Tokyo Olympics in 2020. Although it will be hard to argue the direct benefit to Japan’s golf industry, we do think there will be spill over effects given that the sporting events may benefit the country’s economy as a whole on the back of the expected surge in tourist arrivals and increased spending.

Figure 10: Japan visitor arrivals (2008-2018 Oct)



Source: Japan National Tourism Organisation (JNTO) *2018 figures only include Jan-Oct

Japan attracted a record 28.7mn visitors in 2017, representing a 19% YoY increase and its sixth straight annual increase. 2018 is expected to be another record year as January to October arrivals have already reached 26.1mn.

Valuations

We maintain our BUY recommendation on AGT based on the reasons stated earlier. We utilised the following assumptions in our DDM-based valuation:

Discount rate of 7.0% (previously 8.0% but we lowered it due to risk premium compression in 2019) and long-term growth rate of 0%, which we believe is reasonable based on the forward average DPU yield of business trusts in Singapore. Our discount rate is also higher than the average forward DPU yield for SREITs across all sectors, offering a spread of between 100-300bps.

Long-term exchange rate of 80 JPY/SGD, derived from Bloomberg consensus' spot JPY/USD forecast over the next four years. Our assumption is 10% higher than the 20-year average of 72 JPY/SGD.

Revenue from golf courses is a function of total number of visitors and playing fees per visitor. We used the six-years' annual visitor average given the volatility caused by the weather on some years (e.g., FY12 and FY14 saw a decline in visitors due to adverse weather conditions). We expect golf course revenue per visitor to decline 0.5% per year from our base of JPY 6,000. Golf course revenues per visitor have been on a downward trend (FY13: JPY 6,900 vs FY16: JPY 6,000), mainly as the use of caddies decline at AGT's golf courses. The profit margins from caddy fees are minimal and does not contribute to AGT's overall performance. An upside catalyst with lower playing fees is that it may make it more appealing to a wider range of players.

Revenues from restaurants to remain stable throughout our forecast period. This segment makes up around a quarter of our revenue forecast. Restaurant revenue is driven by the total number of visitors, which has been increasing over the past five years (except in FY14, which was due to heavy snowfall). Number of visitors in FY16 was 5.81m compared to the 5.59m six-year average. We have assumed restaurant revenue per visitor of around JPY 2,223, which has been stable around these levels over the past four years.

We expect **membership fees** to decline over the long term as more players come as visitors instead. Membership fees contributed around 9% of FY17 revenues. We expect a downward trend of around -3% YoY in our ten-year forecast period, and to stabilise thereafter.

Adjustments to net income to arrive at distributable income mainly comes from membership revenue that is booked every quarter but collected in the fourth quarter (Jan-Mar), as well as membership deposits that are refunded at the request of members.

We assumed a **payout ratio of 90%** for DPU, which we believe is conservative. AGT has historically paid out 100% of Distributable income available.

Management has guided for **capex** to be around 3% to 5% of total group revenues. We have not included any acquisition capex in our forecasts, which could provide potential DPU growth.

Figure 11: DDM Valuation - Base case

JPY billion, YE 31 March	2016	2017	2018	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
Number of golf courses	89	89	89	89	89	89	89	89	89	89	89	89	89
Annual visitors (million)	5.807	5.753	5.695	5.617	5.617	5.617	5.617	5.617	5.617	5.617	5.617	5.617	5.617
Playing fees per visitor (thous)	5.975	5.975	6.011	5.981	5.951	5.922	5.892	5.862	5.833	5.804	5.775	5.746	5.717
Restaurant revenue per visit	2.224	2.212	2.195	2.195	2.195	2.195	2.195	2.195	2.195	2.195	2.195	2.195	2.195
Revenue - Golf courses	34.8	34.4	34.2	33.6	33.4	33.3	33.1	32.9	32.8	32.6	32.4	32.3	32.1
YoY (%)		(1.3%)	(0.4%)	(1.9%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
Revenue - Restaurants	12.9	12.7	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
YoY (%)		(1.5%)	(1.8%)	-	-	-	-	-	-	-	-	-	-
Revenue - Membership	4.8	4.4	4.1	4.0	4.0	3.9	3.8	3.7	3.7	3.6	3.5	3.4	3.4
YoY (%)		(7.8%)	(6.9%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)
Revenue - Total	53.2	51.9	51.5	50.7	50.5	50.3	50.0	49.8	49.5	49.3	49.1	48.9	48.6
YoY (%)		(2.4%)	(0.9%)	(1.4%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
Valuation - DDM	2016	2017	2018	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F	2027F	2028F
Net Income After Taxes	6.662	4.115	4.132	5.365	5.340	5.314	5.289	5.264	5.240	5.215	5.191	5.167	5.144
Depreciation and amortisation	3.415	3.259	3.168	3.247	3.232	3.216	3.201	3.186	3.171	3.156	3.142	3.127	3.113
Interest and other financing	1.687	1.656	1.603	1.530	1.523	1.515	1.508	1.501	1.494	1.487	1.480	1.473	1.467
Income tax	0.479	0.801	0.336	0.725	0.722	0.718	0.715	0.712	0.708	0.705	0.702	0.698	0.695
Impairment loss	0.184	1.499	1.720	-	-	-	-	-	-	-	-	-	-
EBITDA	12.427	11.330	10.959	10.868	10.816	10.764	10.713	10.663	10.613	10.564	10.515	10.466	10.419
Changes in working capital	0.102	(0.463)	(0.356)	(0.915)	(0.855)	(0.851)	(0.847)	(0.843)	(0.839)	(0.835)	(0.831)	(0.827)	(0.824)
Interest and other financing c	(0.989)	-	-	(1.290)	(1.244)	(1.232)	(1.226)	(1.220)	(1.215)	(1.209)	(1.203)	(1.198)	(1.192)
Income tax paid	(1.241)	2.0% upfront fee for new JPY43.5bn loan	(0.033)	(2.227)	(1.818)	(1.809)	(1.801)	(1.792)	(1.784)	(1.775)	(1.767)	(1.759)	(1.751)
Others	(2.503)	-	-	-	-	-	-	-	-	-	-	-	-
Cash from operations	7.796	6.592	8.365	5.668	6.905	6.872	6.840	6.808	6.776	6.744	6.713	6.682	6.652
Capex	(1.571)	(1.659)	(2.340)	(1.776)	(1.767)	(1.759)	(1.751)	(1.742)	(1.734)	(1.726)	(1.718)	(1.710)	(1.702)
Net cash used in financing activities	-	(1.755)	(2.589)	-	-	-	-	-	-	-	-	-	-
Available for distribution	6.225	5.178	3.436	3.893	5.138	5.113	5.089	5.065	5.042	5.018	4.995	4.972	4.949
Payout ratio	100%	100%	100%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Distributable income available	6.041	5.178	3.436	3.503	4.624	4.602	4.579	4.558	4.538	4.516	4.496	4.475	4.454
DPU (yen)	5.497	4.712	3.126	3.188	4.208	4.188	4.168	4.148	4.129	4.110	4.091	4.072	4.053
DPU (sgd cents)	6.623	6.040	3.860	3.985	5.259	5.234	5.210	5.185	5.161	5.137	5.113	5.090	5.066
JPY/SGD		78.0	81.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0	80.0
Dividend yield (%)	11.2%	10.2%	6.5%	6.8%	8.9%	8.9%	8.8%	8.8%	8.7%	8.7%	8.7%	8.6%	8.6%
Discount rate				7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
PV of DPU				0.35									
PV Terminal				0.37									
Sum				0.72									
Upside/(downside)				22.1%									

Source: Company data, KGI Research

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